



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

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HOUSE PASSES LEGISLATION TO REPEAL ANTIQUE BANK LAW, AID SMALL BUSINESS

This afternoon, the full House approved, by voice vote, legislation moved through the House Financial Services Committee by Chairman Michael G. Oxley (OH) that would abolish an antique banking law that harms small businesses.

First introduced as two separate bills authored by Oversight and Investigations Subcommittee Chair Sue W. Kelly (NY) and U.S. Rep. Patrick J. Toomey (PA), the legislation would abolish a Depression-era ban that prohibits financial institutions from offering interest on business checking accounts.

Small businesses have disproportionately suffered under the ban because they are typically unable to take advantage of complex banking mechanisms used to skirt the ban.

In floor debate on the bill, Oxley said, "Because of this quirk in current law, America's small businesses are the only entities which currently have little choice but to allow their money to sit idly in banks. This legislation will allow those small businesses to put their money to work for them."

The owner of a typical, five-employee small business loses about \$3,000 per year because he is unable to earn interest on his business checking account. This amount could pay for three new computers or a one-year lease on a

vehicle, items that would make a meaningful contribution to the small business owner's success.

Repeal of the ban would be phased in over a two-year period following enactment of the legislation.

Financial Institutions and Consumer Credit Subcommittee Chairman Spencer Bachus (AL), said, "Small business owners, particularly those in rural areas, and small-town bankers are the folks who lose. Smaller banks do not have the resources and technology to offer more sophisticated types of accounts, so they lose their ability to offer competitive services to their customers."

Kelly said, "Bankers ought to have more flexibility to choose what kinds of services they offer to their customers. Government oversteps its bounds when it tells them they can't offer a simple feature like interest on checking accounts."

Toomey said, "Small business owners ought to earn interest on their money just like everyone else. It's time to adapt this Depression-era law to the realities of the 21st Century."

Also, the bill would authorize the payment of interest on deposits banks are required to hold with the Federal Reserve. The current ban on interest payments is a disincentive for banks to maintain the reserves, which the Fed uses to conduct monetary policy.

In his recent appearance before the House Financial Services Committee, Federal Reserve Chairman Alan Greenspan expressed support for such legislation.

Regarding the reserves issue, Oxley said, "In the competitive financial marketplace, no one should have the free use of someone else's money. The government's free ride should end."

Bachus's Subcommittee on Financial Institutions and Consumer Credit held a hearing on the issue on March 13. The Subcommittee approved the bill on March 21 and the full Committee on March 28.

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